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TAGS: PREL ETRD EINV SOCI KN KS

SUBJECT: DPRK ECONOMY: PDAS STEPHENS' VISIT TO KAESONG  
INDUSTRIAL COMPLEX

REF: A. SEOUL 1266

¶B. SEOUL 963  
¶C. SEOUL 559

Classified By: DCM Mark Minton, for Reasons 1.4 (b.d)

SUMMARY

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¶1. (SBU) EAP PDAS Stephens visited the Kaesong Industrial Complex (KIC) project site on June 2, finding conditions consistent with previous Embassy reporting (refrefs). Some new findings included additional detail on wage and employment conditions in the complex, as well as the existence of a small Christian chapel where South Korean workers worship. The delegation also emerged with a better understanding of the exponential expansion envisioned for the project in future years. End Summary.

¶2. (SBU) EAP Principal Deputy Assistant Secretary Kathleen Stephens, accompanied by Embassy officers, visited the Kaesong Industrial Complex (KIC), located one hour north of Seoul inside North Korea, on June 2. In addition to holding discussions with the South Korean managers of the industrial zone and South Korean government officials, Stephens toured two factories -- Shinwon Ebenezer Textiles and Taesung Hata (which manufactures cosmetics cases) -- and took a windshield tour of the Phase One area of the project, which is currently undergoing site preparation construction (leveling the ground and building roads, sewers and so on).

NEW DATA ON WAGES AND CONDITIONS FOR KAESONG WORKERS

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¶3. (SBU) According to data presented by the Kaesong Industrial District Management Committee (KIDMC), up through the end of 2005 North Korean workers at the project worked an average of 54.9 hours per week, earning an average wage, as paid by their employers, of USD 67.40 (including the official 15 percent social insurance premium paid by the South Korean employers). To date, through the end of the first quarter of 2006, Kaesong district employers have paid a total of about USD 2 million in wages, and USD 280,000 in social insurance premiums. Workers have access to free commuter buses (there

are 21 buses in service) and bicycles (1,000 units have been distributed), receive uniforms and winter undergarments, have access to shower facilities and a clinic, and are served "side dishes" at lunch. (In typical Korean fashion, the "side dishes" supplement the rice brought by Korean workers in their lunchboxes and actually form the bulk of the meal; the items listed on the menu at Shinwon Ebenezer were quite substantial, including hearty soups and vegetable dishes.)

¶4. (SBU) Regarding the key question of how much money the workers actually receive, KIDMC President Kim Dong-keun told our delegation that the North Korean authorities say that they garnish about 30 percent of the wages before giving North Korean cash to the workers, leaving them with roughly 70 percent. This is justified as taxes and fees of various sorts, since the North Korean authorities provide housing, education and other services. KIDMC President Kim said that conversations with workers confirm that actual wage receipts vary, ranging perhaps from 60 to 75 percent depending on the individual.

¶5. (SBU) As reported previously, our delegation confirmed that when North Korean workers sign their time sheets each month, they can see the U.S. dollar totals paid by the South Korean employer for their labor. The time sheets, however, do not mention the additional 15 percent social insurance premium paid to the North Korean authorities by the South Korean employers on behalf of each worker.

¶6. (SBU) KIDMC President Kim and Ministry of Unification (MOU) Director General Ko Gyoung-bin stated that the wage payment situation will be more transparent once the South Korean employers are able to directly deposit funds into a North Korean bank in the names of the individual workers. This is a step they said the North Korean authorities have

agreed to take, once necessary banking facilities are opened. However, examined more closely, such a change may not fundamentally change the arrangement. KIDMC President Kim confirmed that the South Korean employers, lacking access to North Korean Won, will still deposit the wages in U.S. dollars in the North Korean bank. Subsequent to that, the employer will not be able to check the exchange rate used (the current official exchange rate is 170 North Korean Won per dollar; the black market rate is roughly 3,000 per dollar). Therefore, the South Korean employer will not be able to ascertain how much of the wages are garnished by North Korean authorities. In response to our question, KIDMC indicated that there has been no discussion with the North Korean authorities of paying the workers directly at the factory in North Korean Won.

¶7. (SBU) The first annual wage increase has yet to be negotiated with North Korean authorities. Also still under discussion is wider differentiation in wage rates to account for differing productivity and skill levels between workers.

¶8. (SBU) Working conditions observed at Shinwon Ebenezer and Taesung Hata appeared good, and compared favorably to manufacturing facilities we have seen in South Korea and elsewhere in East Asia. The plants are well-lit, comfortable and appear safe, although the repetitive work performed by the unskilled and semi-skilled workers in the factories is no doubt monotonous. Workers appeared animated and energetic, although they became more serious when visitors were nearby. As reported previously, many workers appear to be putting on weight; South Korean employers say that the change in energy levels and apparent healthiness has been noticeable. KIDMC President Kim observed that when the North Korean workers first began working at the KIC, most brought rice mixed with other grains in their lunchboxes; now he observed they brought higher-quality white rice prized by Koreans. Kim attributed this upgrade in diet to increased household income thanks to their KIC employment.

¶9. (SBU) Asked about worker complaints, KIDMC said there have been few reported to the project's managers. If a worker has a complaint that cannot be resolved by their direct

supervisor (whether North or South Korean), they could go to the North Korean government management authority, or approach their company's South Korean management. KIDMC said that they believe that workers' biggest complaint has been with transportation arrangements, since the commuter buses are very crowded. Six more buses are on order to complement the existing 21 vehicles. KIDMC staff members noted that the North Korean workers have gradually become more relaxed in their behavior; for example, they no longer strictly abide by the North Korea-imposed rule that they always move about in pairs, and more readily initiate and engage in casual conversations with South Koreans and each other.

¶10. (SBU) Asked how workers are hired, KIDMC explained that its North Korean partner supplies workers to be interviewed by the South Korean employers. These workers are not recruited individually, but rather the North Korean organizing committee contacts work units in Kaesong City and asked them to volunteer individuals for the KIC. Thus far, all KIC workers are residents of Kaesong City, obviating the need to build or provide new company housing.

¶11. (SBU) We noted that seamstresses at Shinwon Ebenezer sew South Korean price tags directly on to the garments they sew. Many are priced well above USD 200, a small fortune in the DPRK, with the prices listed in South Korean Won.

¶12. (SBU) Asked about taxes, KIDMC staff members explained that no South Korean firms have yet had to pay taxes, given the incentive tax exemption of five years. They admitted that the transfer pricing of materials shipped into North Korea will be an issue of intense interest to North Korean auditors, since that pricing will largely determine how much tax is paid in North Korea and how much in South Korea by the investing firms.

#### A HIDDEN CHURCH IN NORTH KOREA

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¶13. (C) Our delegation, upon visiting Shinwon Ebenezer, was surprised to be shown a locked room that serves as a Christian church for South Korean workers at Shinwon and other firms. A digital photo has been forwarded to EAP/K. MOU Director General Ko asked that we be careful not to make the photo public, or to widely disseminate information about the church, for fear that Pyongyang-based officials may shut it down.

¶14. (C) KIDMC staff members indicated that North Koreans are not allowed to attend the church, where services take place on Sunday when the factory is closed. They do appear to be aware of the locked room, however. One incident was related to us: A stack of bibles left outside the door of the room disappeared, perhaps taken by North Korean workers. When the incident was discovered, local North Korean authorities demanded that Shinwon shut the church. The Shinwon CEO, a devout Christian, visited Kaesong to solve the problem, and won over North Korean authorities when he threatened to close the entire factory if the church were closed.

¶15. (SBU) According to our South Korean guides, Shinwon's investment in North Korea is motivated in part by its owners' Christian faith and a desire to have a Christian presence, albeit limited, in North Korea.

¶16. (SBU) It is interesting to note that North Korean representatives accompanied us throughout the day, and were present even as we asked hard questions about wages and conditions, and when we visited the Shinwon chapel.

#### GENTLE CAMPAIGN FOR INCLUSION IN FTA

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¶17. (SBU) MOU Director General Ko and accompanying Ministry of Foreign Affairs and Trade (MOFAT) officials were clearly interested in USG attitudes concerning inclusion of the KIC in the U.S.-Korea Free Trade Agreement (FTA) currently under

negotiation -- and went out of their way to present the case as best they could. Asked about a parallel project worldwide, for instance, MOU Director General Ko described the Bintan factory complex in Indonesia, which is owned and managed by Singapore and uses materials imported from Singapore before re-export. Director General Ko no doubt used this example because he is aware that the Bintan project has special status in the U.S.-Singapore FTA. In response, EconMinCouns explained why it would not be possible to include the KIC in the U.S.-Korea FTA.

¶18. (SBU) MOU Director General Ko noted that the South Korean government would soon submit technology lists for review for the next batch of 24 firms that is already starting to build their factories in the KIC. This will follow the same procedure as used for the previous 15 firms. Director General Ko anticipated few problems this time, as the firms selected are all relatively low-tech enterprises, many involved in textiles piecework.

COMMENT: DRAMATIC EXPANSION PLANNED FOR THE COMING YEARS

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¶19. (SBU) Perhaps most striking to our delegation was the dramatic presentation provided by the Hyundai Asan Corporation -- and delivered in part by an English-speaking North Korean briefer in the presence of other North Korean officials -- outlining the firm's highly ambitious plans to build in three phases, by 2012, a complex of some 3,200 acres with hundreds of companies employing hundreds of thousands of workers (the figure of 700,000 workers was cited), and ultimately expanding to include commercial, residential and tourist site development. In fact, Hyundai Asan envisions a modern, high-tech city inside North Korea which would be home to tens of thousands of South Koreans and with infrastructure directly linked to the North Korean economy. KIDMC President Kim said that his North Korean counterparts regularly complain about the "slow" pace of Kaesong's development, relative to Hyundai Asan's grand vision.

¶20. (SBU) It is hard to see how such a vision matches current realities. Such an extensive development, unlike the current small-scale factory park, could not be contained in its socio-economic and political impact, and would inevitably have an immense impact on North Korean social consciousness. KIDMC President Kim, in a one-on-one with PDAS Stephen, readily agreed that, absent overall progress toward reform in North Korea, North Korean authorities were unlikely to allow development to proceed that quickly or that far.

¶21. (SBU) This message was cleared by PDAS Stephens.

VERSHBOW